

# THE FINANCIAL SERVICES ROUNDTABLE

*Impacting Policy. Impacting People.*



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**STEVE BARTLETT**  
PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

October 24, 2008

The Honorable Neel Kashkari  
Interim Assistant Secretary for Financial Stability  
US Treasury Department  
1500 Pennsylvania Ave., NW  
Washington, DC 20020

Dear Mr. Kashkari:

The Financial Services Roundtable (“Roundtable”) encourages you to use the authority granted by the Emergency Economic Stabilization Act (“EESA”) to expand the types of troubled assets that can be purchased and guaranteed from financial institutions under the Treasury Department’s Troubled Asset Relief Program (“TARP”) to include Auction Rate Securities and similar instruments such as Variable Rate Demand Obligations (collectively, “Auction Rate Securities”). Section 3(9)(B) of EESA specifically grants broad authority to the Secretary of the Treasury, in consultation with the Chairman of the Board of Governors of the Federal Reserve System, to declare additional financial instruments as “troubled assets” if “necessary to promote financial market stability”.

The stability of the financial market has been jeopardized by the serious and significant events in the Auction Rate Securities markets. Since February, auctions for these securities have experienced failure after failure, on the heels of the seizing of mortgage backed credit markets and as a harbinger of the broader seizure of all credit markets. The unwillingness of financial institutions to place bids on these products for fear of additionally bulking up their balance sheets with increasingly illiquid assets, and concerns of investors about the credit ratings of insurers that backed these instruments, have led to a freeze in the auction rate market. No investors – individuals or financial institutions – have been putting in bids. To further illustrate the extent of these auction failures, compare the 23 year period from 1984 through the end of 2007 to a single day in February, 2008. From 1984 through the end of 2007, there were a total of only 44 failed auctions. Conversely, on a single day in early 2008, February 20, 2008, 395 auctions out of 641 auctions (62%) of auctions failed.

Auction Rate Securities are vital to not only financial institutions but also to state and municipal governments, student loan consolidators and other entities in need of financing.

As these instruments (similar to the mortgage-related market) have become illiquid, financial institutions and investors have had to hold these instruments, and potentially mark down their price similar to mortgage-related securities, because they cannot be monetized in the auctions that were designed for that purpose. In addition, another unfortunate consequence is the emergence of class action lawsuits against financial institutions, creating even more risk and consequential damages to the industry. In an effort to avoid costly and further damaging

litigation in the current market environment, many financial institutions have settled such lawsuits, and agreed to further take these illiquid securities onto their balance sheets. In addition to financial institutions, if the TARP were to purchase or guarantee Auction Rate Securities, corporate and individual investors could free up cash that has been trapped in their portfolios – such cash can be turned back to the economy as well, adding more liquidity into the market.

The Roundtable believes this issue is in urgent need of Treasury action -- the Auction Rate Securities market is in virtual collapse. All auction market participants would also benefit from additional clarity. A bid by the TARP would create an additional safety valve in the auction market. Issuers, investors and remarketing agents would benefit from the additional information of a TARP bid to determine the liquidity risk of the instruments.

The Roundtable believes that your leadership on Auction Rate Securities can result in a positive return on the government's investment for the US Treasury and state and local governments.

Thank you for your leadership on this issue and on TARP. If there is anything the Roundtable can do to help with the process, please be sure to contact me directly at 202-589-2410 or [steve@fsround.org](mailto:steve@fsround.org).

I look forward to working with you on this issue and on your response.

Sincerely,

A handwritten signature in black ink that reads "Steve Bartlett". The signature is written in a cursive, slightly slanted style.

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Steve Bartlett  
President and CEO

Cc: Chairman Ben Bernanke, Board of Governors of the Federal Reserve System